Significant changes introduced in the revised auditing standard SA

570 going concern

The revised Auditing Standard introduced for SA 570 Going concern is for the audits of financial statements for the periods beginning on or after 1st April, 2017.

**Significant changes introduced in the standard:**

**Scope**

The earlier standard which was effective for audits of financial statements for periods beginning on or after April 1, 2009, the scope was restricted to the assessment of management’s use of going concern assumption in preparation & presentation of financial statement. However, in the revised standard introduced from April 1, 2017, the scope of the auditor has been increased manifolds which includes auditor’s responsibility in the audit of financial statements relating to going concern and the implications for the auditor’s report. The auditor is now required to specifically mention in the auditor’s report regarding each of the circumstances prescribed like existence of material uncertainty regarding understanding of the financial statements. SA 700 – Forming an opinion and reporting on financial statement (Revised) also includes illustrative wording to be included in the auditor’s report for all the entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

**Reporting requirement as per enhanced scope**

Further, wordings has also been prescribed for conditions when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of the management’s use of going concern basis of accounting but adequate disclosure of a material uncertainty is not made in the financial statement.To report on the basis of the above requirements, where the role of the auditor has increased considerably, the auditor shall evaluate whether sufficient

appropriate audit evidence has been obtained regarding, and shall conclude on, the appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statements.

If the auditor concludes that management’s use of going concern basis of accounting is appropriate but material uncertainty exists, the auditor shall determine whether the financial statements:

a. Adequately disclose the principal events or conditions that may cast significant doubt on the entity’s ability to continue as going concern and management’s plan to deal with these events or conditions; and

b. Disclose clearly there is material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

**Audit procedures to be applied for the purpose of reporting**

To comply with the enhanced scope and the reporting requirements, auditor is required to collect additional audit evidence to support his findings. Thus, even when no material uncertainty exists, the auditor has to evaluate whether in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosure about *events or conditions* that may cast significant doubt on the entity’s ability to continue as a going concern. Examples of such disclosures could be:

a. Principal events or conditions

b. Management’s evaluation of the significance of those events or conditions in relation to the entity’s ability to meet its obligations

c. Management’s plans that mitigate the effect of these events or conditions; or

d. Significant judgements made by management as part of its assessment of the entity’s ability to continue as a going concern.

**Written Representation**

The auditor may consider it appropriate to obtain specific written representations beyond the audit evidences obtained regarding management’s plans for future actions in relation to its going concern assessment and the feasibility of those plans.

**Reporting as per newly introduced SA 701 –Communicating key matters in**

**Independent Auditor’s report**

The newly introduced auditing standard, SA 701 deals with auditor’s responsibility to communicate key audit matters in the auditor’s report. When SA 701 applies, matters relating to going concern may be determined to be key audit matters, and explains that a material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern is, a key audit matter.

**Applicability in the public sector entity**

Management’s use of the going concern basis of accounting is also relevant to public sector entities. Going concern risks may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where government support may be reduced or withdrawn, or in the case of privatization.

Events or conditions that may cast significant doubt on an entity’s ability to continue as a going concern in the public sector may include situations where the public sector entity lacks funding for its continued existence or when policy decisions are made that affect the services provided by the public sector entity.

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